

Message Text

CONFIDENTIAL

PAGE 01 ASUNCI 00852 061459Z

43

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 EB-11 COME-00 TRSE-00 FEA-02 AID-20 INT-08

AGR-20 IGA-02 PC-10 DRC-01 /169 W

----- 007016

R 061313Z MAR 74

FM AMEMBASSY ASUNCION

TO SECSTATE WASHDC 2053

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY BRASILIA

AMEMBASSY LA PAZ

AMEMBASSY MONTEVIDEO

AMCONSUL SAO PAULO

C O N F I D E N T I A L ASUNCION 0852

E.O. 11652: GDS

TAGS: PFOR, PINT, ECON, PA

SUBJECT: PARAGUAY SITUATION REPORT

REF: ASUNCION 0657

NOTE: THIS TELEGRAM INITIATES A SERIES OF SITUATION REPORTS ON PARAGUAY WHICH WE PLAN TO SUBMIT TWICE A YEAR. THESE REPORTS WILL ASSESS THE CURRENT SCENE AND ESTIMATE MAJOR TRENDS OVER THE NEXT SEVERAL MONTHS.

SUMMARY: OVERSHADOWING ALL ELSE AT THE BEGINNING OF 1974 IN PARAGUAY HAS BEEN THE ABRUPT RISE IN THE PRICE OF PETROLEUM IMPORTS. THIS, COUPLED WITH UNACCUSTOMED AND MOUNTING INFLATION, HAS CREATED ECONOMIC PROBLEMS AND POLITICAL HEADACHES FOR THE STROESSNER REGIME. WE ANTICIPATE THAT HIGHER PETROLEUM COSTS WILL CUT SHARPLY INTO PARAGUAY'S FAVORABLE TRADE BALANCE, AND THAT INFLATION AND CONSUMER
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ASUNCI 00852 061459Z

UNHAPPINES WILL INSPIRE SHARPENED POLITICAL PROTEST.

RECENT INCREASES IN THE MINIMUM WAGE AND RESULTANT PRESSURES FOR A CIVIL SERVICE PAY RAISE, IF REALIZED, WOULD HURT THE GOP'S MODEST DEVELOPMENT EFFORTS. INTERNATIONALLY, CORDIAL RELATIONS WILL CONTINUE WITH BRAZIL AND ARGENTINA ALTHOUGH THERE ARE UNDERCURRENTS OF TENSION WITH ARGENTINA. END SUMMARY

1. IN COMMON WITH OTHER NON-OIL PRODUCING LDC'S, PARAGUAY WAS HARD HIT BY THE SUDDEN INCREASE IN PETROLEUM PRICES, AND DISRUPTIONS IN THE WORLD OIL MARKED. PARAGUAY FACES PROBLEMS OF BOTH SUPPLY AND INCREASED COST. IN EFFORTS TO INSURE A SUPPLY THE GOP HAS NEGOTIATED WITH ARGENTINA TO ACT AS AN INTER-MEDIARY FOR THE PURCHASE OF LIBYAN OIL; AT THE SAME TIME THE GOP HAS TALKED WITH BOLIVIA, VENEZUELA AND SAUDI ARABIA REGARDING POSSIBLE DIRECT PURCHASES. PARAGUAY MUST OBTAIN PETROLEUM EARLY ENOUGH AND IN SUFFICIENT QUANTITIES FOR THE HARVEST SEASON BEGINNING IN MARCH; THUS FAR THE LOWEST CRUDE PRICE QUOTED HAS BEEN \$14 PER BARREL FOB VENEZUELA. WITH ANNUAL REQUIREMENTS RUNNING BETWEEN 1.5 AND 2 MILLION BARRELS, THE PROSPECT IS THAT PARAGUAY'S MODEST ACCUMULATION OF FOREIGN EXCHANGE RESERVES OVER THE PAST 3 YEARS WILL BE DRAWN DOWN (REFTEL 0657). CURRENT PROJECTIONS OF EXPORTS AND IMPORTS INDICATE A PROBABLE DEFICIT ON TRADE ACCOUNT WHICH COULD GO AS HIGH AS \$20 MILLION FOR 1974. THIS KIND OF RED INK LOOMS LARGE IN PARAGUAY.

2. FOR MANY YEARS PARAGUAY HAD ENJOYED A LOW RATE OF INFLATION, IN THE RANGE OF 3 PER CENT OR LESS. THIS SITUATION HAD DETERIORATED IN THE LAST 18 MONTHS DUE TO A COMBINATION OF INTERNATIONAL TRADE FACTORS PLUS THE CHRONIC INABILITY OF THE GOP TO KEEP ITS FISCAL HOUSE IN ORDER. EVEN THE LOWEST ESTIMATE PEGS INFLATION AT TWENTY PERCENT IN 1973. PROSPECTS FOR THIS YEAR ARE GRIM, STARTING WITH A QUANTUM JUMP IN THE PRICE OF REGULAR-GRADE GASOLINE FROM US 80 CENTS TO US\$1.60 PER GALLON. AS THE EFFECTS OF GREATLY INCREASED OIL AND GASOLINE COSTS SPREAD THROUGHOUT THE ECONOMY THE OUTLOOK IS ONE OF WORSENING INFLATION AND AN ACCOMPANYING

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ASUNCI 00852 061459Z

WAGE-PRICE SPIRAL. IN PART BECAUSE OF INEFFECTIVE GOP POLICIES ATTEMPTING TO KEEP BASIC FOOD COSTS DOWN, SHORTAGES EXIST FOR ITEMS SUCH AS MEAT, SUGAR, AND FLOUR.

3. GIVEN THE NATURE OF THE GOP, POLITICAL REPERCUSSIONS FROM INFLATION AND ECONOMIC DISTRESS ARE NOT LIKELY TO BE MARKED BUT THERE WILL BE AN IMPACT.

CRITICISM BY THE INEFFECTIVE BUT VOCIFEROUS OPPOSITION AND IN THE CHURCH PRESS HAS INCREASED SHARPLY. THE SQUEEZE IS BEING MOST SHARPLY FELT IN THE URBAN SECTOR, PARTICULARLY BY THE CIVIL SERVANT WHO IS BEING HURT BY RAPIDLY RISING PRICES. THIS HAS PRODUCED, FOR THE FIRST TIME IN YEARS, WIDESPREAD COMPLAINT FROM ALL SIDES AGAINST THE GOVERNMENT'S INABILITY TO CONTAIN LIVING COSTS. HOWEVER, THE STROESSNER REGIME OPERATES WITH REGULARLY RENEWED STATE OF SIEGE POWERS AND HAS BOTH THE MEANS AND THE WILL TO STIFLE SUCH POLITICAL PROTEST AS MAY ARISE. ALREADY THE GOP HAS DEMONSTRATED ITS DETERMINATION TO LIMIT DISSENT BY DETAINING A HALF DOZEN UNIVERSITY STUDENTS CAUGHT PAINTING WALLS WITH PROTESTS AGAINST THE GASOLINE PRICE HIKE. WE ANTICIPATE A CRACKDOWN ON NEWSPAPERS IF CRITICISM STARTS GETTING TOO HOT, SINCE THE GOP HAS TAKEN PARTICULAR PRIDE IN CLAIMING PARAGUAY ENJOYS BOTH DOMESTIC PEACE AND PROSPERITY. AT THE SAME TIME, WHILE CONFIDENT OF ITS ABILITY TO CONTROL ITS REGIMENTED AND DOCILE POPULATION (AND THE GOP-MANIPULATED TRADE UNION ORGANIZATION), THE GOP IS GOING TO HAVE TO ATTEMPT TO GIVE SOME RELIEF TO CONSUMERS. IT HAS JUST GRANTED A 20 PERCENT INCREASE IN THE MINIMUM WAGE (THE THIRD PAY RAISE IN THE LAST TEN MONTHS) AND PRESSURES ARE MOUNTING FOR HIGHER SALARIES FOR CIVIL SEFVANTS. THIS LATTER MEASURE, WHEN AND IF GRANTED, WOULD FURTHER EXACERBATE THE GOP'S FISCAL PROBLEMS AND ACCELERATE INFLATION. EVEN MORE IMPORTANTLY, IT WOULD AFFECT THE GOVERNMENT'S MODEST DEVELOPMENT EFFORTS AND MAKE IT DIFFICULT FOR PARAGUAY TO PROVIDE THE REQUIRED COUNTERPART FUNDS NEEDED IN VARIOUS DEVELOPMENT ORGANIZATIONS. GIVEN PARAGUAY'S LIMITED OPTIONS AND THE GOP'S DEMONSTRATED WEAKNESSES IN ANY SERIOUS CONTROL OF PRICES
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 ASUNCI 00852 061459Z

AND SUPPLIES, THE OUTLOOK FOR FAMILY BUDGETS IN PARAGUAY IS POOR.

4. THE STROESSNER REGIME WILL CONTINUE TO SEEK TO MAINTAIN EQUILIBRIUM IN ITS RELATIONS WITH BRAZIL AND ARGENTINA. HOWEVER, BRAZIL IS POISED AND READY TO PROCEED WITH WORK ON THE ITAIPU DAM AND TO EXPLOIT TO THE FULLEST THE CONSEQUENT INTERACTION BETWEEN THE TWO COUNTRIES. ON THE OTHER HAND, ARGENTINA, DEEPLY OCCUPIED WITH DOMESTIC PROBLEMS, IS LESS LIKELY TO BE ABLE TO TAKE SUCH IMMEDIATE ADVANTAGE OF ITS SIMILAR AGREEMENT WITH PARAGUAY ON THE YACYRETA PROJECT. AS BRAZIL CONTINUES TO MAKE INROADS HERE IT WILL REINFORCE THE PREDISPOSITION OF THE DOMESTIC POLITICAL OPPOSITION (AND THE CHURCH) TO TAKE PRO-ARGENTINE AND ANTI-

BRAZILIAN POSITIONS. IN THIS RESPECT, THE OPPOSITION IS EXPECTED TO CONTINUE ITS EFFORTS IN CONGRESS TO PASS LEGISLATION TO CONTROL THE INFLUX OF BRAZILIAN MIGRANTS TO SPARSELY SETTLED BORDER AREAS.

5. PARAGUAY'S CURRENT ECONOMIC TROUBLES AND NEED FOR ARGENTINE WHEAT AND OIL HAVE COINCIDED WITH GOA'S DRIVE TO NEGOTIATE DEFINITIVE AGREEMENTS FOR JOINT POWER PROJECTS (CORPUS AND YACYRETA). THESE RECIPROCAL NEEDS HAVE CONTRIBUTED TO WARMER RELATIONS BETWEEN THE TWO, ALTHOUGH FUNDAMENTAL TENSIONS PERSIST. GOP OFFICIALS PERCEIVE THE PRESENT ARGENTINE PREDISPOSITION FOR CONCESSIONS RATHER THAN COERCION AS A TEMPORARY OPPORTUNITY FOR EXTRACTING BENEFITS FROM THE GOA.

6. NEVERTHELESS, THE GOP WILL CONTINUE TO BE UNEASY ABOUT RELATIONS WITH THE GOA. TWO KEY FACTORS ARE THE UNCERTAINTIES AS TO THE STABILITY AND LONGEVITY OF THE PERON REGIME, AND ARGENTINA'S DEMONSTRATED READINESS TO USE COERCION TO GET PARAGUAYAN CO
E E E E E E E

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, POLITICAL SITUATION, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ASUNCI00852
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: ASUNCION
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740365/aaaacilt.tel
Line Count: 185
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: ASUNCION 0657
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 04 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2002 by boyleja>; APPROVED <06 JAN 2003 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PARAGUAY SITUATION REPORT
TAGS: PFOR, PINT, ECON, PA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005